

# CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

GUARANTY FEDERAL BANCSHARES, INC.

Point of Contact:	Carter Peters, EVP/CFO	RSSD: (For Bank Holding Companies)	2618940
UST Sequence Number:	422	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	17,000,000	FDIC Certificate Number: (For Depository Institutions)	
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	January 30, 2009	City:	Springfield
Date Repaid <sup>1</sup> :	N/A	State:	Missouri

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Total loans declined \$22 million from December 2010 to December 2011. However, the CPP funding has allowed the Bank to be modest in its loan growth over the last few years, and not restrict lending more than it would have. The Company is focusing on small business lending primarily.

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To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

☒ **Increase securities purchased (ABS, MBS, etc.).**

Investment securities purchased increased significantly in 2011 to \$73.5 million, primarily in both ABS and MBS.

☒ **Make other investments.**

The Company continued to invest in low-income housing projects during 2011. Investments of \$950,000 were made in two separate projects in the Bank's normal trade area.

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**X Increase reserves for non-performing assets.**

The Company provisioned \$3.4 million of expense in 2011 to increase loan loss reserves on specific non-performing assets. During 2011, the Company also experienced additional loss on sale and collateral write-downs on its foreclosed assets held for sale.

**X Reduce borrowings.**

During 2011, the Company reduced its reliance on FHLB borrowings by \$25 million and also reduced balances of repurchase agreements by \$14.8 million.

**X Increase charge-offs.**

Loan charge-offs were significant again for the Company in 2011 at \$5.8 million. These charge-offs were deemed necessary due to further deterioration of collateral values or loss recognition on loans at time of foreclosure.

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☐ Purchase another financial institution or purchase assets from another financial institution.

☐ Held as non-leveraged increase to total capital.

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### What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

1. Risk of undercapitalization per the Prompt Corrective Action standards addressed in Part 325 of the FDIC Rules and Regulations.2. Reduction in customer confidence during the economic downturn and stress on the Banking industry.3. Increased funding availability for wholesale borrowing reductions as well as providing funds to invest in our community.4. Avoid having to seek out other capital sources that are still quite limited for Companies our size.

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### What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

1. Allowed the Company to significantly reduce its concentration in non-owner occupied commercial real estate lending. 2. Support capital to offset increased losses and reserves on the Company's non-performing assets. 3. Assistance in the Company's continued reduction in its wholesale borrowings. 4. Allowed the Company to focus on certain types of lending such as small business and owner occupied commercial real estate.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.